



CIO believes the bull market is intact and stocks will likely rise further over the next year. (UBS)

CIO recommends that investors maintain a full strategic allocation to US stocks

13 May 2025, 3:34 pm EDT, written by US Editorial Team UBS Editorial Team

With the recent rally following the reduction in trade-related fears (the S&P 500 has rallied 11% since 10 April), the index is now trading above the levels prevailing on 2 April when President Trump imposed “Liberation Day” tariffs. In our view, the risk-reward in equities is now more balanced.

While the 90-day cooling-off period has provided a reprieve, uncertainty is still high, and investors will soon likely begin to focus on whether this temporary fix can evolve into a lasting agreement. The constructive tone from both sides suggests a willingness to negotiate further, but challenges in forging a durable deal could lead to bouts of volatility.

As a result, we downgraded US equities to Neutral from Attractive, having taken advantage of the opportunity presented by what we considered to be excessive investor pessimism. It is important to note that this is not a bearish view, nor a call to sell equities, and we recommend that investors maintain a full strategic allocation to US stocks. Over a 12-month time horizon, we believe that equities will be higher than current levels.

We maintain our US sector preferences, with an Attractive rating on communications services, information technology, health care, and utilities. With respect to health care, we think the recent sell-off in pharma on concerns over tariffs and drug pricing is overdone at current valuations, particularly given the legal challenges that Trump’s intended actions will likely face. The rest of the health care sector is not affected by the drug pricing executive order, and tariff exposure is manageable, in our view.

The pace and scale of tariff reductions agreed in this initial round have exceeded market expectations going in. If these lower tariff levels are sustained or reduced further, we could see upside risk to our full-year MSCI China earnings growth forecast (currently +5.5%). We think high-beta sectors, particularly our preferred technology names, are likely to continue outperforming. Within Chinese equities, we continue to favor growth and tech stocks and suggest investors consider tilting exposure toward select internet and China EV leaders.

Looking beyond the 90-day pause, the durability of this rally will depend on two key factors: whether US-China negotiators can turn this into a lasting trade agreement, and how Beijing proceeds with anticipated stimulus now that external risks appear to be easing.

More broadly, for investors who were underinvested going into this year's sell-off and/or are willing to take on near-term risk for likely long-term reward, we recommend:

- **Phase into stocks.** Phasing into the market can be an effective way to position for medium- and longer-term upside while managing timing risks and uncertainty over the coming months. Capital preservation strategies can be another way to manage near-term downside risks.
- **Transformational Innovation Opportunities (TRIOs).** We maintain strong conviction in the long-term potential of our TRIO themes, including Artificial intelligence, Power and resources, and Longevity. The latter theme is an opportunity for investors with a longer investment horizon looking to reap the rewards of advances in human health. If Trump succeeds in capping some prescription drug prices, this could have a short-term impact on some of the pharma stocks within this theme, but we believe the structural drivers remain intact as lifespans extend and the elderly population grows. Also, in this event, we think the Chinese pharma sector could stand to benefit from pressure on international producers to cut production and R&D costs.
- **Seek sell-off opportunities.** We believe recent volatility has created select attractive opportunities at a single-stock and individual-market level, with various companies with good longer-term prospects now trading at more attractive valuations than at prior highs. In the US, we highlight 20 US companies across a range of sectors that are higher quality, have solid business models, and offer, in our view, good longer-term value (see "Sell-off opportunities" – Global," published on 17 April 2025). In Europe, our "Six ways to invest in Europe" list focuses on defensive stocks that we believe can benefit from increased market volatility, as well as from likely higher European defense spending and fiscal stimulus.
- **Sell dollar rallies.** On Monday, the dollar rallied, with EURUSD dropping by 1.4% to 1.11. With EURUSD having risen from 1.02 to as high as 1.14 this year, we expected a consolidation in the dollar's value, and we anticipated that any trade deals were likely to be supportive. However, over the medium term, we anticipate renewed dollar weakness as the US economy slows and focus shifts to the US's large deficits. We prefer using periods of near-term dollar strength as an opportunity to reduce USD allocations in favor of currencies such as the yen, euro, pound, and Australian dollar.

Original report - [US equities rally on US-China love: Downgrading US to Neutral, 13 May 2025.](#)

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